GOVERNMENT CORN PROGRAM 1984 AND COMPARISON WITH 1983

by

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The government's corn price support program for 1984 is substantially different from 1983 (Table 1). Specifically, there are no provisions for acreage diversion payments, advanced cash payments, or payment-in-kind incentives for acreage diversion, and the national average price support loan rate has been reduced by ten cents per bushel.

However, the program does have some attractive features. Most importantly, the target price has been raised from $2.86 per bushel to $3.03. Combined with the reduced loan rate, this raises the maximum deficiency payment to $0.48 per bushel (established ASCS yield) from $0.21 last year. In order to be eligible for program benefits, a producer must divert ten percent of his corn base acreage, or 11.11 percent of his actual 1984 planted corn acreage if less than 90 percent of his base acreage, from crop production to approved conservation uses.

Other than the minimum price protection afforded by the price support loan, the major financial attraction of the 1984 program is the potential for a sizable deficiency payment. The payment is calculated by determining the difference between the per bushel target price and the average U.S. market price for corn to farmers during the October 1984-February 1985 period. In the event that the national average market price during this period would be below the national average loan rate of $2.55, the maximum per bushel deficiency payment is limited to $0.48 (which is the difference between the target price and the loan rate). The per bushel payment is multiplied by

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the participant's established ASCS corn yield and applied to the actual number of corn acres actually planted to determine the size of the actual deficiency payment.

The worksheet included allows producers to calculate the expected net benefits or costs associated with participation in the 1984 corn program. For the typical Ohio producer, the break-even market price for his 1984 corn crop is around $2.85 per bushel. That is, disregarding risk, if the average producer expects to realize a market price on his 1984 corn crop of $2.85 or less he will probably increase his net cash income by participating in the program.

Producers with nearly 80 percent of the nation's corn base acres participated in the 1983 program. About 30 percent of the nation's base acreage was accounted for by participants in the 1982 corn program which, with the notable exception of a substantially lower target price/maximum deficiency payment ($2.70 target and $0.15 maximum deficiency payment) had provisions similar to the 1984 program. A reasoned guess of participation rates in the 1984 program would be in the 40-60 percent range, in terms of base acreage.

Participation in the 40-60 percent range, considered with normal weather yields in the 105-115 bushel per acre range, national average, would slice roughly 400 million bushels from total 1984 production, compared to no program (Table 2). With expected carryover from this year's crop of 600 million bushels or less and allowing for modest (five to eight percent) increase in use next year, 1984-85 looks to be a stocks-rebuilding year even with relatively high participation. This would be expected to pressure prices to around or below the break-even levels for many Ohio producers.

Sign-up for the 1984 corn program ends February 24.

Table 1. Major Corn Program Provisions, 1983 and 1984

	1983	1984
Acreage Base	Same as in 1982	Average of 1982 and 1983 acreage planted & considered planted
Acreage Division (from Base)		
Unpaid	10%	10%
Paid	10%	None
PIK	10-30%	None
Full Base Bid	90%[1/]	None
Target Price	$2.86	$3.03
Loan Rate (national average)	$2.65	$2.55
Payments		
Diversion	$1.50/bu.[2/]	None
PIK	80% of ASCS Yield[3/]	None
Maximum Deficiency	$0.21/bu.	$0.48/bu.
Advanced	50% Diversion + Deficiency[4/]	None

1/ Participating producers could enter competition bids on 90 percent of their corn base acreage by indicating what percentage of their established ASCS yield they would take in payment for diverting that 90 percent from corn production. Bids were accepted on a county-by-county basis.

2/ Paid on the established ASCS yield for the 10 percent of a participant's corn base acres eligible for cash diversion payments.

3/ Paid on the 10-30 percent of a participant's corn base acres that the participant agreed to divert from crop production under the 10-30 PIK program.

4/ Participants could request advanced payment of up to 50 percent of their entitled cash diversion payment and anticipated deficiency payment with repayment required if actual deficiency payment entitlement was less than advanced deficiency payment.

Table 2. 1984-85 Corn Market Prospects With and Without 1984 Corn Program Participation

	NO PROGRAM	40-60% PARTICIPATION
Million Acre		
Base Acreage	84.9	84.9
Diverted Acreage	0	3.4-5.1
Planted Acreage	84.9	79.8-81.5
Acreage Harvested for Grain	74-75	70-72
Billion Bushels		
Production (105-115 bu./A.)	7.8-8.6	7.4-8.3
Carry-in	0.5-0.6	0.5-0.6
Total Supply	8.3-9.2	7.9-8.9
Utilization	7.0-7.4	7.0-7.4
Carry-out	1.3-1.8	0.9-1.5
Season Average Price[1/]	$2.40-2.70	$2.55-2.90

[1/] To Ohio farmers.

1984 GOVERNMENT PROGRAM FOR CORN: AN AID FOR DECIDING

	Participate		Not Participate	
	Example	My Farm	Example	My Farm
PROGRAM INFORMATION				
1. Corn acreage base	100 A.		100 A.	
2. Acres of corn planted	90 A.			
3. Acres set aside (line 2 x .111)	10 A.			
4. Program yield	125 bu.			
5. Program production (line 4 x line 2)	11,250 bu.			
6. Expected yield	130 bu.		125 bu.	
7. Expected production (line 2 x line 6)	11,700 bu.		12,500 bu.	
EXPECTED CASH INCOME AT HARVEST				
8. Loan or price per bushel (#2 corn)	$ 2.55		$ 2.40	
9. Total receipts (line 7 x line 8)	$ 29,835		$ 30,000	
10. Expected deficiency payment per bushel ($3.03 - 5 mo. price or max. of $.48)	.33			
11. Deficiency payment (line 5 x line 10)	$ 3,713			
12. Total income (line 9 + line 11)	$ 33,548		$ 30,000	
EXPECTED CASH EXPENSES THRU HARVEST				
13. Crop expenses per acre (include drying)	$ 160		$ 159	
14. Total crop expenses (line 2 x line 13)	$ 14,400		$ 15,900	
15. Cover crop expenses per acre	$ 20			
16. Total cover crop expenses (line 3 x line 15)	$ 200			
17. Interest on crop expenses [(line 14 + line 16) x (13% _____ x .5)]	$ 949		$ 1,034	
18. Total cash expenses (line 14 + line 16 + line 17)	$ 15,549		$ 16,934	
SUMMARY				
19. Expected net cash (line 12 - line 18)	$ 17,999		$ 13,066	
20. Advantage for participation (line 19: column 1 - column 2)	$ 4,933			
21. Non-participation break-even price [(line 20 ÷ line 7 column 2) + line 8 Column 2]			$ 2.79	

NOTE: THE ABOVE CALCULATIONS DO NOT CONSIDER THE COSTS ASSOCIATED WITH STORAGE OR INTEREST ON CROP LOAN.